

professional report

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Contact Centers— Labor-Intensive Endeavors



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By Van Power, SIOR

Over the past few years, a revolution has occurred in what once was termed the “call center” industry. Today, the term “contact center” is more in vogue and for a simple reason—more corporations are using customer service facilities not only to contact customers, but more importantly to respond to customers’ information needs via phone, e-mail, and live chat technologies.

These facilities provide a win-win situation for both companies and communities. Having completed site selection assignments for more than seven million square feet of contact center space over the past 14 years, I have helped create more than 70,000 jobs and \$13 billion in economic value over a 10-year lease, while saving clients more than \$2.4 billion annually over the same time frame.

While rewarding, contact center transactions are complex and require far more work than typical leasing or development deals. With contact centers, there are four main pieces of the client puzzle all moving

and intermingling at the same time—labor demographics, real estate, incentives, and architecture.

Labor

First and foremost, contact center transactions are labor deals, not real estate deals. That makes sense if you consider that for any company, the cost of the labor over a typical 10-year lease can amount to eight to 10 times the real estate cost. That is a hard concept for brokers to get their arms around because they have been trained to always think about the real estate.

Companies today are most concerned about the availability of labor, the quantity of the labor, the quality of the labor, and the cost. Every contact center has these concerns and it is the one way that all contact centers are similar. In other words, if you are a company about to make a \$140 million labor decision or a \$10 million real estate decision; your choice must be based on finding the right labor. (See box on page 28.)

Also, from a cost standpoint, it is one thing to have enough employees for the first two years, but if you are going to take a 10-year lease, it is not going to help you very much if labor is not available after two years. That is why it is so important to understand the demographics and the labor trends during the site analysis.

You have to focus on labor as your main strategy. The biggest problem in today's contact centers is turnover, which in the past has ranged from 75 percent a year and up. Through a better understanding of labor source issues, this figure has been reduced to 20 to 25 percent. That is why labor source is an important component.

Real Estate

Each contact center is unique and no one formula fits every site. They can be located in all kinds of structures—office, industrial, retail, flex, or build-to-suits. The real challenge is timing. Typically the time from the initial client contact to the day of project completion is only four to six months.

To consider build-to-suits, you have to start the entire process earlier because you may need up to 12 months to build versus two to three months to renovate an existing facility. Normally with build-to-suits, the broker locates different parcels of land from which the corporate client can choose, puts the chosen parcel under contract, and selects a developer to build the facility.

In whatever way the real estate shapes up, flexibility is key to the client. This is a long-term decision because most clients invest so much into these facilities. One of the ways to build in flexibility is to negotiate cancellation options at five and seven years, and provide extremely strong, tenant-positive sublease rights. Landlords don't like it, but clients must have flexibility in their ability to sublease. They need to have flexibility in how the leases are structured so they can amortize their tenant improvements (furniture, space plans, etc.) over the term of the lease and use their existing capital to pay for employees.

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Obviously there are ongoing gross real estate costs, and these facilities often require backup generators, UPS systems, and extra HVAC capacity. Contact centers average approximately one ton per 175 square feet versus one ton per 350 square feet in typical office buildings. In addition, extra parking is needed to accommodate multiple shifts. Contact centers need six to eight spaces per 1,000 square feet of leased space, versus the typical four spaces per 1,000 square feet.

Incentives

Negotiating the proper incentives for contact centers is critical to the project's success. This often involves time-consuming negotiations with local, county, state, and sometimes federal authorities. In today's economy, there are far greater incentives to attract larger corporate facilities, but incentives can come in all shapes and sizes.

When it comes to negotiations, typical commercial real estate transactions might involve the use of building versus building as leverage; however, with contact centers it is most important to use labor salaries versus buildings as leverage. Often, one state is pitted against another state or one city against another city.

Ultimately, a company wants to see apples-to-apples comparisons, and that is often extremely difficult in these transactions. The business of finding every available incentive in every potential location is challenging, and there is added complexity when you consider the variety of city sizes, large cities versus secondary cities versus tertiary cities all at the same time. Also your client must compare different building types, the cost of the real estate, and whether leases are done on a gross basis, a triple-net basis, or a semi and gross basis.

Architecture

Exterior and interior design is extremely important to the success of today's contact centers. If you look at any facility built in the last five years, you

quickly notice that these are not just boxes anymore. Architects have discovered that making these facilities appear more modern and professional can actually help attract quality employees and reduce labor turnover. Overall, they are much more corporate in appearance.

Surprisingly, not many architectural firms in the United States really understand or have extensive experience in the dynamics of the workings of contact centers. There are a lot of synergies involved, and that is why I typically take the architect with me on the very first building tour, where we might visit four cities in a two-day period to look at eight buildings. Having the architect along from the outset saves not only time but also quite a bit of money for the client because the architect can quickly gauge the costs associated with each space.

When it comes to interior design, most people mistakenly think these centers are 100 percent open space, but it is actually more like 50/50. You need reception areas, interview rooms, conference rooms, cafeterias, locker rooms, sufficient restrooms, and break rooms.

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From a productivity standpoint, ceilings should be 12-14 feet high, and there should be plenty of windows to allow natural lighting, all to reduce claustrophobia and foster a freer environment where workers perform better. We are still big believers in ownership—if the employees feel ownership in what they have, they are going to be more productive.

LABOR VS. REAL ESTATE (example)

Labor

Typical Facility Size: 50,000 sq. ft.

Employees: 500-750

Labor hours/year: 2,080

Labor hourly wage: \$9.00-\$12.00

Total labor cost (10 years): approximately \$140 million.

Real Estate

Typical Facility Size: 50,000 sq. ft.

Rent: \$18-\$20/sq. ft./year

Total 10-year Cost: approximately \$10 million.

Errata

Please note the following corrections from the 1st Quarter edition of *Professional Report*.

In "Managing Your Sales Force to Success" by Michael Hammond the correct wording for page 19 is below.

"5. Know your bottom line. This is very important when dealing with superstars. "You need to know when to say "no." As much as we love superstars, they always tend to think they are underpaid. While this can be true in good times, it is very often the reverse in bad times."

Regarding the article, "The Future of Tenant Representation," by Steve Bergsman, it has been brought to our attention that Fischer & Company in Pittsburgh, Pennsylvania, is also an exclusive tenant representation firm.